

Calculating the Franchise Tax Physician Example

Table A
Revenue

	Total Charges	Patient Receipts			Medicare Receipts	Insurance Receipts	Total Receipts
		Co-Pymt	Deductible	Other			
Patient #1	\$3,000	\$20	\$500		\$2,480		\$3,000
Patient #2	\$3,500			\$750			\$750
Patient #3	\$2,750						\$0
Patient #4	\$4,000	\$20	\$100			\$3,880	\$4,000
Patient #5	\$6,000	\$30	\$500			\$5,470	\$6,000
Patient #6	\$8,000	\$30	\$100			\$7,870	\$8,000
Revenue	\$27,250	\$100	\$1,200	\$750	\$2,480	\$17,220	\$21,750

Table B
Operating Expenses

From IRS Form 1065:

Salaries and wages	\$2,000
Guaranteed payments	\$3,000
Repairs and maintenance	\$500
Bad debt	\$400
Rent	\$2,250
Taxes and licenses	\$1,050
Interest	\$750
Depreciation	\$500
Depletion	
Retirement Plans	\$400
Employee Benefit Programs	\$600
Other Deductions	

Total Operating Expense **\$11,450**

Table C
Cost of Uncompensated Care

Uncompensated care charges	\$6,250	from Table A, Patient #2 and Patient #3
less partial payments	<u>\$750</u>	from Table A, Patient #2
	\$5,500	
divided by total charges	\$27,250	from Table A
Uncompensated Care Ratio	0.2018	
multiplied by		
Operating expenses	<u>\$11,050</u>	from Table B, Total deductions less Bad debt
Cost of Uncompensated Care	<u>\$2,230</u>	

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Table D
Adjustment to Compensation Deduction*

Compensation Included in

Operating Expenses:

Salaries and wages	\$2,000	from Form 1065, Table B
Guaranteed payments	\$3,000	from Form 1065, Table B
Retirement Plans	\$400	from Form 1065, Table B
Employee Benefit Programs	<u>\$600</u>	from Form 1065, Table B

Total	\$6,000	
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multiplied by the

Uncompensated Care Ratio	<u>0.2018</u>	
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Adjustment to Compensation Deduction	<u>\$1,211</u>	
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*If using cost of goods sold to determine margin, a similar adjustment must be made for the cost of goods sold included in the operating expenses.

Table E
Calculating the Franchise Tax

Revenue	\$21,750	from Table A, Total Receipts
Deductions:		
Bad debt	\$400	from Table B, see 171.1011(c)(2)(B)(i)
Exclusions:		
Medicare Payments	\$2,480	from Table A, Patient #1*
Cost of Uncompensated Care	<u>\$2,230</u>	from Table C
Total Revenue	<u>\$16,640</u>	
Compensation		
Wages and cash compensation	\$5,000	
Employee Benefits	\$1,000	
Adjustment to Compensation Deduction	<u>(\$1,211)</u>	from Table D
Total Compensation	<u>\$4,789</u>	
Margin (Revenue less Compensation)	\$11,851	
Apportionment Factor	<u>1.0000</u>	Assuming all receipts are TX receipts
Taxable Margin	\$11,851	
Tax Rate	<u>1%</u>	
Tax Due	<u>\$119</u>	

* Co-payments and deductibles received under Medicare programs may be excluded from total revenue.